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**BEFORE THE
UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES**

MARCH 5, 2003

OVERVIEW

Chairman Oxley, Ranking Member Frank, Distinguished Members of the Committee:

Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year (FY) 2004 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

HUD has achieved measurable success since 2001 in carrying out its mission and meeting the many challenges confronting a Cabinet-level Department. Today, HUD annually subsidizes housing costs for approximately 4.5 million low-income households through rental assistance, grants, and loans. It helps revitalize over 4,000 localities through community development programs. The Department provides housing and services to help homeless families and individuals become self-sufficient. HUD also encourages homeownership by providing mortgage insurance for more than 6 million homeowners, many of whom would not otherwise qualify for loans.

Supported by HUD's proposed \$31.3 billion FY 2004 budget, this important work will continue. Housing remains a critical component of both the President's plan to promote economic growth and his focus on meeting the common challenges faced by Americans and their communities.

The President does not intend to change his 2004 Budget based on the program or agency levels included in the 2003 Omnibus bill the Congress adopted in mid-February. The President's 2004 Budget was developed within a framework that set a proposed total for discretionary spending in 2004, and each agency and program request reflected the Administration's relative priority for that operation within that total. While we recognize that Congress may believe there is a need to reorder and adjust some of these priorities, the Administration intends to work with Congress to stay within the 2004 overall amount

HUD's proposed budget offers new opportunities for families and individuals – and minorities in particular – seeking the American Dream of homeownership.

It offers new opportunities for renters by expanding access to affordable housing free from discrimination.

It provides new opportunities for strengthening communities and generating renewal, growth, and prosperity – with a special focus on ending chronic homelessness.

And our budget creates new opportunities to improve HUD's performance by addressing the internal management issues that have long plagued the Department.

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INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because its benefits for families, communities, and the nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities and churches. Homeownership inspires civic responsibility, and owners vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways – at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make – a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, more Americans were homeowners in 2002 than at any time in this nation's history. The national homeownership rate is 68 percent. That statistic, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities: while the homeownership rate for non-Hispanic whites is nearly 75 percent, it is less than 50 percent for African-Americans and Hispanics.

The Administration is focused on giving more Americans the opportunity to own their own homes, especially minority families who have been shut out in the past. In June 2002, President Bush announced an aggressive homeownership agenda to increase the number of minority homeowners by at least 5.5 million by the end of this decade. The Administration's homeownership agenda is dismantling the barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership that minority families face. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, HUD is proposing several new or expanded initiatives in FY 2004 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates.

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at \$200 million. First introduced in FY 2002, this program targets funding under the HOME program specifically to low-income families wanting to purchase a

home. The FY 2003 appropriations provided for \$75 million for this initiative, which will be sufficient to begin the program. The FY 2004 budget provides funding to assist approximately 40,000 low-income families with down payment and closing costs on their homes.

The HOME Investment Partnerships Program (HOME) plays a key role in addressing the shortage of affordable housing in America. As reflected in this year's program assessment, the HOME program is successful because it is well managed and its flexibility ensures local decision-making. In 2004, a total of \$2.197 billion is being provided to participating jurisdictions (states, units of local government, and consortia) to expand affordable housing, which represents a 10-percent, or \$200 million, increase for HOME from the 2003 enacted level. The funds dedicated to expanding and improving homeownership will be spent rehabilitating owner-occupied buildings and providing assistance to new homebuyers. Based on historical trends, 36 percent of the homeownership-related funds will be used for new construction, 47 percent for rehabilitation, and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing down payment and closing costs, as well as the costs of acquisition, rehabilitation, and new construction. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 288,000 low-income households.

To promote the production of affordable single-family homes in areas where such housing is scarce, the Administration is proposing a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home. This new tax credit targets low-income individuals and families; eligible homebuyers would have incomes of not more than 80 percent of their area median.

HUD is committed to helping families understand the homebuying process and how to avoid the abuses of predatory lending. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2004 budget will expand funds for counseling services from \$40 million in FY 2003 to \$45 million. This will provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

The FY 2004 budget strengthens HUD's commitment to the Self-Help Homeownership Opportunity Program (SHOP). SHOP provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The FY 2004 budget request for \$65 million triples the funding received in 2002, reflecting President Bush's commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide

for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant account.

The Federal Housing Administration (FHA) is the Federal Government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. In 2002, FHA insured \$150 billion in mortgages for almost 1.3 million households, most of them first-time homebuyers, which represents a 21 percent increase over the previous year. Thirty-six percent were minority households.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures single-family homes, home rehabilitation loans, condominium loans, energy efficiency loans, and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

HUD is proposing legislation for a new mortgage product to offer FHA insurance to families that, due to poor credit, would either be served by the private market at a higher cost or not at all. It is anticipated that borrowers will be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance Fund (MMI) mortgage loan program is expected to generate an additional \$7.5 billion in endorsements for 62,000 additional homes.

Through its mortgage-backed securities program, Ginnie Mae helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as VA and the Rural Housing Service of the U.S. Department of Agriculture.

During Fiscal Year 2002, Ginnie Mae surpassed a total of \$2 trillion in mortgage-backed securities issued since 1970. Reaching this milestone means that more than 28.4 million families have had access to affordable housing or lower mortgage costs since Ginnie Mae's inception. HUD is proud of Ginnie Mae's accomplishments and its important role in helping to support affordable homeownership for low- and moderate-income families in America. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The FY 2004 budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

The Native American Housing Block Grants (NAHBG) program provides funds to tribes and to tribally designated housing entities for a wide variety of affordable-housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include

housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable-housing activities but who cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in FY 2004 is reduced from \$2 million to \$1 million, and the loan amount supported is reduced from \$16.6 million to \$8 million. Prior-year funds remain available until used.

The Indian Housing Loan Guarantee (Section 184) program helps Native Americans to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In FY 2004, \$1 million is requested in credit subsidy for 100 percent federal guarantees of approximately \$27 million in private loans.

The Hawaiian Homelands Homeownership Act of 2000 established the Native Hawaiian Home Loan Guarantee Fund, which is modeled after Section 184. The FY 2004 budget will provide \$1 million in credit subsidy to secure approximately \$35 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant (NHHBG) was authorized by the Hawaiian Homelands Homeownership Act of 2000. The FY 2004 budget will provide \$10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction and rehabilitation. Activities will include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning.

PROMOTING DECENT AFFORDABLE HOUSING

Ideally, homeownership would be an option for everyone, but even with its new and expanded homeownership initiatives, the Administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. Therefore, along with boosting homeownership, HUD's proposed FY 2004 budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing states and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to

individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance, and modernization of an additional 1.2 million public housing units.

HUD is proposing a new initiative – Housing Assistance for Needy Families (HANF) – under which the funding for vouchers, which has been allocated to approximately 2,600 public housing authorities (PHAs), would be allocated to the states. States, in turn, could choose to contract with PHAs or other entities to administer the program. The funding for both incremental and renewal vouchers will be contained in the HANF account.

There are a number of advantages to providing the voucher funds to the states. The allocation of funds to states rather than PHAs should allow for more flexibility in efforts to address problems in the underutilization of vouchers that have occurred in certain local markets. The allocation of funds to the states will be coupled with additional flexibility in program laws and rules, to allow states to better address local needs and to commit vouchers for program uses that otherwise would go unused. In the former Housing Certificate Fund, more than \$2.41 billion has been recaptured over the last two years from the Housing Choice Voucher program. These large recaptures have resulted in a denial of appropriated housing assistance for thousands of families, which will be avoided under HANF. The administration of the HANF program should run more smoothly, with HUD managing fewer than 60 grantees compared to approximately 2,600 today.

Allocation of the funds to the states should allow for more coordinated efforts with the Temporary Assistance for Needy Families (TANF) program, and the One-Stop Career Center system under the Workforce Investment Act, successfully administered by the states, to support the efforts of those now receiving public assistance who are climbing the ladder of self-sufficiency.

HUD proposes that FY 2004 be a transition year in which PHAs would continue to receive voucher funds directly while states ramp up in preparation for administering the HANF program. Up to \$100 million would be made available to assist states with this effort. In addition, states could apply for incremental vouchers if they are ready to do so, and could request waivers that would assist in the implementation of their programs.

The HANF account would contain \$13.6 billion in funding for voucher renewals and incremental vouchers. This would include funding for up to \$36 million in incremental vouchers for persons with disabilities, additional incremental vouchers to the extent that funding is available, \$252 million for tenant protection vouchers to prevent displacement of tenants affected by public housing demolition or disposition of project-based Section 8 contract terminations or expirations, and \$72 million for Family Self-Sufficiency Coordinators.

For FY 2004, the Administration proposes separate funding for vouchers under the new HANF account. The Project Based Rental Assistance Account will retain funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. An appropriation of \$4.8 billion is requested for these renewals in FY 2004, which is a \$300 million increase over the current fiscal year. In addition to new appropriations, funds available in this account from prior-year balances and from recaptures will augment the amount available for renewals and will be available to meet amendment requirements for on-going contracts that have depleted available funding, as well as a rescission of \$300 million.

It is anticipated that approximately 870,000 project-based units under rental assistance will require renewal in FY 2004, an increase of about 50,000 units from the current fiscal year, continuing the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle. The HANF account funds an estimated 30,300 units in subsidized or partially assisted projects requiring tenant-protection vouchers due to terminations, opt-outs, and prepayments.

Public Housing is the other major form of assistance that HUD provides to the nation's low-income population. In FY 2004, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,050 PHAs. Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities, and HUD subsidies cover the remaining costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included and enhanced in the FY 2004 budget. This will allow for the acceleration of the reduction in the backlog of modernization requirements in public housing facilities across the nation.

The formula distribution of funds through the Public Housing Operating Fund takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In FY 2004, HUD will increase the amounts provided for operating subsidies from \$3.530 billion to \$3.559 billion, plus \$15 million to fund activities associated with the Resident Opportunities and Supportive Services (ROSS) program.

The Public Housing Capital Fund provides formula grants to PHAs for major repairs and modernization of its units. The FY 2004 budget will provide \$2.641 billion in this account. This amount is sufficient to meet the accrual of new modernization needs in FY 2004.

Of the funds made available, up to \$40 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$30 million can be used for demolition

grants – to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in FY 2004, up to \$40 million will be available for the ROSS program (in addition to \$15 million in the Operating Fund), which provides supportive services and assists residents in becoming economically self-sufficient.

To address the backlog of capital needs, the Department is including a legislative proposal in its 2004 budget called the Public Housing Reinvestment Initiative (PHRI) that will allow PHAs to use their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative also will encourage development-based financial management and accountability in PHAs.

These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will allow the PHAs to secure private financing to rehabilitate or replace their aging properties by pledging the property as collateral for private loans for capital improvements.

The FY 2004 budget enhances this proposal, which was made in last year's budget request, by also proposing a guarantee of up to 80 percent of the principal of loans made to provide the capital for PHRI. There was substantial interest by PHAs and others in last year's budget proposal; the loan guarantee should greatly facilitate the involvement of private lenders. The budget includes \$131 million in subsidy for this guarantee, which would allow the guarantee of almost \$2 billion in loans and significantly accelerate the improvement in public housing conditions.

The PHRI reflects our vision for the future of public housing.

For 10 years, the HOPE VI program has been the government's primary avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. With \$2.5 billion already awarded but not yet spent, and an additional \$1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today, HUD has approved bond deals that have leveraged over \$500 million in the last couple of years. PHAs can mortgage their properties to leverage private capital. In Maryland, PHAs are forming consortiums to leverage their collective resources and assets to attract private capital. Cities such as Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods. HUD is also seeking additional tools from Congress such as the Public Housing Reinvestment Initiative.

HOPE VI has served its purpose. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has funded the demolition of over 115,000 severely distressed public housing units and the production of over 60,000 revitalized dwellings. There are also more effective and less costly alternatives. The average cost per rebuilt HOPE VI unit is approximately \$120,000, compared to \$80,000 in HUD's HOME program. Only 20,000 new HOPE VI units have been completed to date. On average, five years pass between the time a HOPE VI award is made and a new unit is occupied. In contrast, during the same period, HUD's HOME program produced 70,000 new rental units with an average construction time of about 2 years. It is time to look to the future and pursue new opportunities, such as those I have noted, which can more effectively serve local communities.

Among HUD's other rental assistance programs, FHA insures mortgages on multifamily rental housing projects. In FY 2004, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the second year in a row – from 57 basis points to 50 basis points. With this reduction, the Department estimates that it will insure \$3 billion in apartment development loans through this program, for the annual production of an additional 42,000 new rental units, most of which will be affordable to moderate-income families, and most of which will be located in underserved areas. Additionally, because this program is no longer dependent on appropriated subsidies, FHA avoids the uncertainty and the suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving non-profit developers, nursing homes, and refinancing mortgagors, FHA anticipates providing support for a total of some multifamily 178,000 housing units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. The program has, in fact, supported the building, rehabilitation, and purchase of more than 322,000 rental units. Program funds have also provided direct rental assistance to more than 88,000 households.

The Native American Housing Block Grant (NAHBG) and Native Hawaiian Housing Block Grant (NHHBG) are also used for a wide variety of affordable-housing activities. Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant (CDBG) program can be used to support rental housing activities.

Regulatory barriers on the state and local level have an enormous impact on the development of rental and affordable housing. HUD is committed to working with states and local communities to reduce regulatory and institutional barriers to the development of affordable housing. HUD plans to create a new Office of Regulatory Reform and commit an additional \$2 million in FY 2004 for research efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Through this office, researchers will develop the tools needed to measure and ultimately reduce the effects of excessive barriers that restrict the development of affordable housing at the local level.

STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The FY 2004 budget provides states and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address locally determined development priorities through decisions made locally.

The mainstay of HUD's community and economic development programs is the CDBG program. In FY 2004, total funding requested for CDBG is \$4.732 billion. Funding for the CDBG formula program will increase \$95 million from the FY 2003 enacted level, to \$4.436 billion. Currently, 865 cities, 159 counties, and 50 states plus Puerto Rico receive formula grant funds.

HUD is analyzing the impact of the 2000 Census on the distribution of CDBG funds to entitlement communities and states. Based on this review, revisions to the existing formula may be proposed so that funds are allocated to those communities that need them the most and will use them effectively. Any proposals will, of course, consider measures of need and fiscal capacity, as well as other factors.

Of the \$4.732 billion in FY 2004, \$4.436 billion will be distributed to entitlement communities, states, and insular areas, and \$72.5 million will be distributed by a competition to Indian tribes for the same uses and purposes. This budget presumes legislative changes proposed in FY 2003 to fund CDBG grants to insular areas as part of the formula, and to shift administration of the Hawaii Small Cities program to the State. The remaining \$224 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis.

As it did in FY 2003, the FY 2004 budget again proposes \$16 million for the Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on border states where the *colonias* are located. *Colonias* are small, generally unincorporated communities that are characterized by substandard housing, lack of basic infrastructure and public facilities, and weak capacity to implement economic development initiatives. The FY 2004 funds will: provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.

HUD participates in the privately organized and initiated National Community Development Initiative (NCDI). The FY 2004 budget will provide \$30 million for the NCDI and Habitat for Humanity, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community-based development organizations, including community development corporations, in the

economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation.

The FY 2004 budget provides \$31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

The FY 2004 budget requests \$65 million for the Youthbuild program. This program is targeted to high school dropouts ages 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The FY 2004 request will serve more than 3,728 young adults.

The Community Renewal Tax Relief Act of 2000 authorized the designation of 40 Renewal Communities (RCs) and nine Round III Empowerment Zones (EZs), and provided tax incentives which can be used to encourage community revitalization efforts. Private investors in both RC and EZ areas are eligible for tax benefits over the next ten years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of federal involvement. No grant funds have been authorized or appropriated for RCs or Round III EZs. Round II Empowerment Zone communities have received grant funding in the past, but after four years of funding, still have balances of unused funds available. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.

The Administration is deeply engaged in meeting the challenge of homelessness that confronts many American cities. Across the scope of the federal government, funding for homeless-specific assistance programs increases 14 percent in the FY 2004 budget proposal. We are fundamentally changing the way the nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is leading an unprecedented, Administration-wide commitment to eliminating chronic homelessness within the next 10 years. Persons who experience chronic homelessness are a sub-population of approximately 150,000 individuals who

often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. For the most part, these individuals get help for a short time but soon fall back to the streets and shelters. Research indicates that although these individuals may make up less than 10 percent of the homeless population, they consume more than half of all homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

As a first step, the Administration reactivated the U.S. Interagency Council on Homelessness. Reactivating the Council has provided better coordination of the various homeless assistance programs that are directly available to homeless individuals through HUD, HHS, VA, the Department of Labor, and other agencies. \$1.5 million is earmarked within the Homeless Assistance Account for the operations of the Council in FY 2004.

HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and make the funding process simpler for those who provide homeless services. The FY 2004 budget continues to provide strong support to homeless persons and families by funding the HUD homeless assistance programs at the record level of \$1.528 billion.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population.

The FY 2004 budget includes funding for a new program to address the President's goal of ending chronic homelessness in 10 years: the Samaritan Initiative. Funded by HUD at \$50 million, the Samaritan Initiative will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. This program is part of a broader, coordinated federal effort between HUD, HHS, VA and the Interagency Council on Homelessness.

In order to significantly streamline homeless assistance in this nation and increase a community's flexibility in combating homelessness, HUD will propose legislation to consolidate its current homeless assistance programs into a single program.

The Administration is also proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that was administered by FEMA to HUD. The transfer of this \$153 million program would allow for the consolidation of all emergency shelter assistance – EFSP and the Emergency Shelter Grant program – under one agency. EFSP funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army, and the United Way, as well as other experts.

In addition to funding homeless supportive services, the FY 2004 funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

Nearly two million households headed by an elderly individual or a person with disabilities receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and oftentimes helps them to live independent lives.

The FY 2004 budget will provide the same level of funding for Housing for the Elderly and Housing for Persons with Disabilities as was requested for FY 2003. The effectiveness of the Housing for the Elderly program was evaluated this past year using the Office of Management and Budget's new Program Assessment Rating Tool (PART), and received low performance scores. The Administration recognizes the need to improve delivery of housing assistance to the elderly (Section 202) and will examine possible policy changes or reforms to strengthen performance. Funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are then provided with rental assistance, enabling them to accept very low-income residents. In FY 2004, \$773 million plus \$10 million in recaptures will be provided for elderly facilities. Many of the residents live in the facilities for years; over time, these individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing \$30 million of the grants for construction to convert all or part of existing properties to assisted-living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, \$53 million of the grant funds will be targeted to funding the services coordinators who help elderly residents obtain needed and supportive service from the community.

The budget for FY 2004 proposes to separately fund grants for Supportive Housing for Persons with Disabilities (Section 811) at \$251 million. The disabled facilities grant program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In FY 2004, \$42 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market. The Housing for Persons with Disabilities program also received low performance scores when it was evaluated using the PART. The Department proposes to reform the program to allow faith-based and other nonprofit sponsors more flexibility in using grant funds to better respond to local needs. In addition, the reformed program would recognize the unique needs of people with disabilities at risk of homelessness, and give priority to serving this group as part of the Administration's Samaritan Initiative to end chronic homelessness.

One of the targeted uses of new incremental vouchers under the Section 8 program is for non-elderly disabled individuals who are currently residing in housing that

was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidies elsewhere. If a sufficient number of applications for these vouchers are not received, the PHAs may use them for any other disabled individuals on the PHAs' waiting lists. In FY 2004, the Department will allocate \$36 million for the non-elderly disabled to fund approximately 5,500 vouchers.

HUD will also provide \$297 million in FY 2004 in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of \$5 million over the FY 2003 level and is based on the most recent statistics prepared by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in FY 2004 and provide new grants for an expected three new jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 114 in FY 2004.

HUD's Lead-Based Paint Program is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In FY 2004, funding for the lead-based paint program will increase to \$136 million from \$126 million provided in the President's request for FY 2003. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards. Included in the total funding is \$10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars, and funding for technical studies to reduce the cost of lead hazard control. The program also conducts public education and compliance assistance to prevent childhood lead poisoning. The President's budget requests an additional \$25 million for a new, innovative lead hazard reduction demonstration program to eliminate lead-based paint hazards in homes of low-income children, funded under the HOME program. This new program will provide creative ways of identifying and eliminating lead-based paint hazards – methods that will serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows.

Also included is \$10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. Working with other agencies such as the Centers for Disease Control and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

HUD is requesting \$17 million in FY 2004 to meet the expanded costs of its Manufactured Housing Standards Program. This is a \$4 million increase over the current fiscal year. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the states to investigate complaints by purchasers, and cover administrative costs, including the Department's staff. Fees have

been set by regulation to support the operation of this program.

ENSURING EQUAL OPPORTUNITY IN HOUSING

In this land of opportunity, no one should be denied housing because of that individual's race, color, national origin, religion, sex, familial status or disability. The Administration is committed to the fight against housing discrimination, and this is reflected in HUD's budget request for FY 2004.

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding state and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The FY 2004 budget will provide \$29.7 million – an increase of \$4 million above the FY 2003 level – under FHAP to support state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The increase will provide: (1) an education campaign to address persistently high rates of discrimination against Hispanic renters (as identified by the 2000 Housing Discrimination Study); (2) funding for a Fair Housing Training Academy to better train civil rights professionals and housing partners in conducting fair housing investigations; and (3) additional funding for expected increases in discrimination cases processed by state and local fair housing agencies as a result of increased education and outreach activities. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, special enforcement efforts, training, and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis.

The FY 2004 budget will provide \$20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP program for FY 2004 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Fighting predatory lending is an important activity for FHIP agencies, as reports continue to show that abusive lenders frequently target racial minorities, the elderly, and women for mortgage loans that have exorbitant fees and onerous conditions.

Educational outreach is a critical component of HUD's ongoing efforts to prevent or eliminate discriminatory housing practices. HUD will continue its work to make individuals more aware of their rights and responsibilities under the Fair Housing Act. A major study titled "How Much Do We Know" emphasized the continuing need for public education on fair housing laws; in FY 2004, FHIP organizations throughout the country will continue to fund a major education and public awareness campaign in support of

study findings.

The *colonias* have many barriers to fair and affordable housing in both rental and homeownership. Many of the residents are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in those areas. FHIP-funded fair housing organizations with grants targeted to the *colonias* will provide residents with information on the Fair Housing Act and substantially equivalent laws and respond to allegations of discriminatory practices.

The FHIP program will continue to emphasize the participation of faith-based and community partners. Recognizing the tremendous impact that education has on the implementation of fair housing laws, virtually any entity (public, private, profit, and non-profit) that actively works to prevent discrimination from occurring is eligible to apply for funds under this initiative.

Faith- and community-based partnerships in FHIP will empower citizens by: (1) encouraging networking of state and local fair housing enforcement agencies and organizations; (2) working in unison with faith-based organizations; and (3) promoting a fair housing presence in places where little or none exists today. HUD will emphasize partnerships with grassroots and faith-based organizations that have strong ties to those groups identified in the 2000 Housing Discrimination Study as being most vulnerable to housing discrimination, particularly the growing Hispanic population.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance is being implemented through Project Fair Housing Accessibility First (formerly called the Project on Training and Technical Guidance). The project, which is now in its second year, will provide training at 48 separate venues to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. During that same period, Project Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

The Center will continue to play a key role in FY 2004 in facilitating intra-Departmental and interagency cooperation regarding the needs of faith-based and

community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnership with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." Its intent is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies. The Order directs the Center to: (1) amend any policies that contradict the Order; (2) where appropriate, implement new policies that are necessary to further the fundamental principles and policymaking criteria set forth in the Order; (3) implement new policies to ensure collection of data regarding the participation of faith-based and community organizations in social service programs that receive federal financial assistance; and (4) report to the President the actions it proposes to undertake to implement the Order.

In compliance with Executive Orders 13198 and 13279, the Center will continue to participate in implementing HUD's strategic goals and objectives, as well as the following key responsibilities: conduct an annual Department-wide inventory to identify barriers to participation of faith-based and community organizations in the delivery of social services; initiate and support efforts to remove said barriers; widen the pool of grant applicants to include historically excluded groups; identify and reach out to faith- and community-based organizations with little or no history of working with HUD; work with HUD program offices to strengthen and expand their faith-based and community partnerships; and educate HUD personnel and state and local governments on the faith-based and community initiative.

EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

Improving the performance in HUD's critically needed housing and community development programs begins at home in the Department, by embracing high standards of ethics, management and accountability. The President's Management Agenda is focused on how we can better manage to fulfill our mission by addressing the Department's longstanding major management challenges, high-risk program areas, and material management control weaknesses. Accountability begins with clarity on the Department's goals, priorities and expectations for performance results. We have integrated the goals of the President's Management Agenda with our budget, our annual management operating plans, and our management performance evaluation processes, to better assure accountability and results.

A key focus of the President's Management Agenda is to address deficiencies in HUD's management of its financial and information systems and human capital, which have hindered the Department's ability to properly control and mitigate risks in the rental housing assistance and single family mortgage insurance programs. There are no quick

fixes for these longstanding problems, but we continue to pursue a deliberate and methodical improvement process that is clearly demonstrating progress in improving HUD's program delivery structure and performance results.

Financial Management and Information Systems

A primary focus of the past two years has been on addressing the Department's most significant financial management systems deficiencies in the FHA, and on stabilizing and enhancing HUD's existing core financial management systems operating environment. The FHA Subsidiary Ledger Project is proceeding on-schedule as a multi-year, phased effort to replace FHA's commercial accounting system with a system that fully complies with federal requirements, including budgetary accounting and funds control and credit reform accounting. A major project milestone was accomplished with the successful implementation of the new FHA general ledger system in October 2002. Enhanced funds control capabilities of the new system are scheduled for implementation in 2004, and FHA will continue to adapt and further integrate its 19 insurance program feeder systems over the next several years to achieve full systems compliance by 2006.

While FHA awaits the completion of these systems improvements, they have been working with the HUD Chief Financial Officer on a Department-wide effort to improve HUD's funds control. HUD's handbook on policies and procedures for the administrative control of funds had not been updated since 1984. We updated and strengthened these policies and procedures in a new Administrative Control of Funds Handbook issued in December 2002.

With respect to HUD's core financial management system, the HUD Central Accounting and Program System (HUDCAPS), we have been focused on stabilizing and enhancing systems operations to support the accelerated preparation and audit of HUD's consolidated financial statements. We eliminated two reportable conditions from the OIG's FY 2000 financial statement audit related to: 1) the reliability and security of HUD's critical financial systems, and 2) controls over fund balance with Treasury reconciliations. We prepared mid-year financial statements in FY 2002 and have begun the preparation of quarterly statements in FY 2003. Our year-end audit and reporting process was accelerated by one month for FY 2002, and we have plans for further acceleration the next two years to meet the OMB mandate for issuance of our FY 2004 audited financial statements by November 15, 2004.

HUD has received unqualified audit opinions on the Department's consolidated financial statements for the last three consecutive years—a strong indicator of financial management stability and accountability. However, the audit of our FY 2002 financial statements was not trouble free. It contained 3 material weakness and 10 reportable conditions. Addressing these remaining internal control deficiencies is a high priority for the Department.

While HUD's core financial management system, HUDCAPS, is substantially compliant with federal financial management systems requirements, it is inefficient and

expensive to maintain. We initiated the HUD Integrated Financial Management Improvement Project (HIFMIP) to study options for the next generation core financial management system to replace HUDCAPS. Previous HUD systems integration improvement efforts failed to fully meet their intended objectives due to inadequate planning and commitment. HUD is taking the time to properly plan this project. A HIFMIP Executive Advisory Committee was convened in January 2003 -- with representation from the Principal Staff of HUD's major organizational components, including FHA and GNMA, and an advisory role has been provided for the HUD OIG. A new Assistant CFO for Systems was hired in October 2002, and Project Manager was hired for HIFMIP in February 2003. The HIFMIP Vision is scheduled for completion by January 2004, and feasibility studies with a systems recommendation by July 2004.

HUD's overall FY 2004 information technology (IT) portfolio will benefit from our continuing efforts to improve the IT capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications. HUD is also continuing to pursue increased electronic commerce and is actively participating in the President's "E-Government" projects to better serve our citizens and realize cost-efficiencies through standardized systems solutions in common areas of information and processing need.

Human Capital Management

HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. Effective human capital management is the purview of all HUD managers and program areas, and improvements have been geared towards meeting HUD's primary human capital management challenges. HUD has taken significant steps to enhance and better utilize its existing staff capacity, and to obtain, develop and maintain the staff capacity necessary to adequately support HUD's future program delivery. Building upon the REAP and TEAM management tools, a new staff resource estimation and allocation system implemented in 2002, HUD will complete a Comprehensive Workforce Analysis in 2004 to serve as the main component to fill mission critical skill gaps through succession planning, hiring and training initiatives in a Five-Year Human Capital Management Strategy.

HUD is working to determine where application of competitive sourcing to staff functions identified as commercial would result in better performance and value for the government. We have worked with OMB to ensure the appropriate amount and mix of competitive sourcing opportunities, taking into account the workforce we have inherited, including the significant downsizing and extensive outsourcing of administrative and program functions over the past decade. HUD's Competitive Sourcing Plan identifies some initial opportunities for consideration of possible outsourcing, in-sourcing or direct conversion studies to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Strengthening Controls Over Rental Housing Assistance

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through FY 2005 and are raising the bar with new goals. However, HUD overpays hundreds of millions of dollars in rental housing subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the President's Management Agenda, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD has established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004.

To achieve our erroneous assistance payments reduction goal, we have taken steps to reestablish an adequate HUD monitoring capacity in the field to oversee intermediary performance. Field staff is conducting intense, on-site monitoring reviews to detect and correct income verification and subsidy calculation errors. We are also working to provide intermediaries with improved program guidance and automated tools to more efficiently and effectively administer the rental assistance programs. Program simplification proposals are also under consideration, along with a pending legislative proposal for increased authority to perform more effective computer matching with tenant income data sources to enable intermediaries to perform upfront verifications of income used in rent and subsidy calculations. Updated error measurement studies will be performed on program activity in 2003 through 2005 to assess the effectiveness of our efforts to reduce program and payment errors.

Improving FHA's Single Family Housing Programs Risk Management

FHA manages its single-family housing mortgage insurance program area in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the Mortgage Mutual Insurance (MMI) Fund that supports these programs. The MMI Fund is financially sound and the single-family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the MMI Fund could be further improved if all lenders, appraisers, property managers and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals.

In the past two years, FHA has initiated or completed numerous actions to improve the content, oversight and enforcement of its program requirements, including consideration of alternative business processes. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch program, improvements to the Credit Watch program that will identify problem loans and lenders earlier on, new standards for home inspectors, a final rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and

the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

In addition, FHA continues to enhance its staff capacity for administering this program area, and continues to achieve favorable property disposition results through its performance-based management and marketing (M&M) contracts. M&M contracts have resulted in a steady decline in FHA's property inventory, from 36,000 homes at the end of FY 2000 to 30,113 at the end of FY 2002. The loss per claim on insured mortgage defaults has been cut from 37 percent to 29.5 percent.

CONCLUSION

As we implement our proposed FY 2004 budget, we will also judge our success by the lives and communities we have helped to change through HUD's mission of compassionate service to others: the young families who have taken out their first mortgage and become homeowners, the homeless individuals who are no longer homeless, the neighborhoods that have found new hope, the faith-based and community organizations that are today using HUD grants to deliver social services, and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by HUD's proposed budget for Fiscal Year 2004, our communities and the entire nation will grow even stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of my efforts, and I welcome your guidance as we continue our work together.

Thank you.